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DRAFT REPORT OF THE TRADE AND DEVELOPMENT BOARD ON THE FIRST PART OF ITS THIRTY-EIGHTH SESSION

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from 23 September to 4 October 1991

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Addendum

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Chapter I

INTERDEPENDENCE OF PROBLEMS OF TRADE, DEVELOPMENT FINANCE AND THE INTERNATIONAL MONETARY SYSTEM

(Agenda item 2)

and

DEBT AND DEVELOPMENT PROBLEMS OF DEVELOPING COUNTRIES

(Agenda item 3)

35. The UNCTAD Trade and Development Report, 1991 (UNCTAD/TDR/11) was relevant to the Board's consideration of agenda items 2 and 3.

36. The spokesman for the Group of 77 (India), underlining UNCTAD's global policy analysis and coordination role as the very essence of the interdependence paradigm, said that the discussions at this Board session should provide insights and ideas for UNCTAD VIII - an important event in North-South dialogue. The North-South dialogue of cooperation was a matter of both continuity and change and there was the paramount need for continuing the dialogue. The dialogue itself was about change in attitudes and perceptions, in mechanisms and systems that governed international arrangements for trade, money, finance and technology.

37. Despite the fact that adverse external economic environment and inadequate fiscal and monetary policies of the major industrialized countries had resulted in the deterioration of the economic and social problems in developing countries, developing countries had been in the vanguard of change, had carried out often revolutionary economic reforms, and had made structural adjustments which had not been free from hardship and sacrifice. They were waiting for change in the policies and attitudes of their industrialized partners, who had resisted change and postponed constructive actions needed to help developing countries while being preoccupied with Euro-centric and trans-Atlantic issues.

38. The emerging new order involving strategic, political and economic realignments brought on by East-West cooperation, regional economic integration movements and technological and information revolutions called for a new spirit of internationalism and assistance to the developing trading partners. Interdependence of the problems of trade, development finance and

the international monetary system and between and among nations - developed and developing, transitional and market economies - had become stronger with the emergence of a global economy. New concerns about environment, narcotics control, migration and terrorism had combined to create a new awareness of the importance of interdependence. The challenge was to guide and manage it for the benefit of all, particularly the weaker partners in this web of complex global interrelationships.

39. Interdependence implied the interlinked coexistence of all countries, the creation of rights and obligations of a global nature, the coincidence of interests, the imposition of mutual constraints on the autonomy of national and international policy-making and behaviour and the dependence of the prosperity of one on that of the other. Outlining the constituent elements of the phenomenon of globalization of production and trade, he said that it had become another major factor in the intensification of interdependence. For developing countries, this globalization carried with it both infinite promise and some risks, since most of them were not in a position to influence or participate in the process and yet were more vulnerable than developed countries which occupied its commanding heights. The existing asymmetries in the global economy must not be allowed to be accentuated. If developing countries became "global outsiders" the realization of genuine interdependence would be thwarted. The developing world's 1.1 billion poor and hungry must not be further marginalized from the global quest for economic well-being. The strenuous efforts of developing countries themselves to leapfrog into the competitive mainstream of globalization must be fully supported by their developed-country partners. This would call for a new development consensus, a new order, a reinvigorated partnership based on the fusion of generosity and compassion for the human condition with the imperatives of both hard-headed as well as enlightened self-interest of countries and peoples.

40. As the Trade and Development Report emphasized, developing countries' efforts to cope with the pressures of change in the world economy had coincided with their greater vulnerability to the external economic environment. The recessionary perspective faced by developed countries had cast its shadow on the growth prospects of developing countries too. Positive policies and concrete measures would have to be adopted by developed countries to complement what had been recognized by OECD as the historic efforts of

developing countries to contribute to the process of global structural adjustment by undertaking far-reaching fiscal, trade, industrial and economic policy reforms aimed at accelerating growth, generating employment, improving productivity and releasing the forces of technological innovation. A global endeavour needed to be mounted to ensure that pursuit of efficiency in the context of social equity and increasing reliance on market forces did not fail to bring the development dividends sought. The efforts of developing countries to harness and direct the dynamism, enormous resources and capacities of the global TNCs to build indigenous technological capacities, expand export opportunities and gain preferential and assured access to the tools and structures of competitiveness had to be supported. This implied that private-sector players in the global economy would also have to fulfil developmental obligations.

41. In looking at the growth performance of developing countries, UNCTAD had identified the key ingredients of economic resilience and success - namely favourable export prices and earnings - and had pointed out that this "fell only in part and sometimes only in small part within the ambit of domestic policy effort and influence". Domestic policy effort by developing countries had not been wanting. Believing in the promise of trade as the engine of economic growth and development, developing countries had adopted export-oriented development strategies, and had even assumed the pioneering role in trade liberalization. Emphasizing and outlining the unilateral trade liberalization efforts in developing countries, he pointed out that the trade actions of developing countries were most often applied on a general, non-selective basis without discrimination against specific groups of trading partners and there was no resort to selective NTMs such as VERs and MFA restrictions. Many developing countries had risked major destabilization and dislocation of their industries and balance-of-payments position and if their liberalization efforts were to succeed, developing countries would need substantially liberalized market access on preferential terms in developed countries as well as external monetary and financial support.

42. The situation regarding market access was discouraging. Protectionism in developed countries against developing-country exports was a major barrier and was increasingly taking on non-transparent and unpredictable forms. New protectionist instruments on unrelated pretexts, such as environmental

protection, were being devised and protectionist measures were being applied on a discriminatory basis and were disproportionately imposed against developing-country exports. There was continued resistance to undertake structural adjustment and to liberalize certain so-called sensitive sectors and product areas of export interest to developing countries such as textiles, agriculture, steel and leather products, showing up in relief the purposive trade liberalization and structural adjustment efforts of developing countries.

43. Another negative factor that developing countries had had to contend with was the threat to an open, equitable and stable multilateral trading system posed by increasing resort to unilateralism and "blocism" by some trading partners. Whether regional trading arrangements would be building blocks or stumbling blocks to a freer world trading system would depend on how the trade policies of groupings would evolve in response to adjustment pressures within and on what kind of preferential access they would give to developing-country exports. Developing countries attached particular importance to securing the trading system on a firm foundation of rules and disciplines and had been actively and constructively participating in the Uruguay Round of MTNs.

44. Developing countries hoped that the Round would be concluded with substantial, balanced and equitable results. Essential prerequisites of such an outcome were a major movement in market access, particularly in those areas of export interest to developing countries such as textiles, agriculture, tropical and natural resource-based products; and application of the principle of differential and more favourable treatment to developing countries and significant progress in the area of rule-making. In new areas like TRIPS and TRIMS, where multilateral regimes were being evolved, developing countries expected flexibility on the use of policy instruments for developmental purposes. In the services area the multilateral framework for trade in services should be sufficiently flexible to accommodate the objectives of countries at different levels of development. A genuine trade expansion and liberalization ending protectionist trends, unilateral and discriminatory trade restrictions, as well as precluding retaliation between trade in goods and measures related to intellectual property protection, investment and services would herald success of the Uruguay Round.

45. In analysing the Brussels package, UNCTAD had rightly assessed that the current status of negotiations suggests that the real benefits of developing countries were likely to be limited. That being the case, it was necessary that between now and the end of the Uruguay Round technical and political efforts be deployed to evolve a more balanced package which satisfied the vital interests of developing countries. In this regard, in accordance with Part I.G. of the Punta del Este Declaration, an evaluation of the results with a view to ensuring the effective application of "differential and more favourable treatment" for developing countries should be carried out and it should be conducted comprehensively within a sufficient timeframe to allow for the introduction of corrective measures into the final outcome. Only then would the results be deemed to be truly balanced and accpetable to developing countries.

46. There was too much at stake in the Uruguay Round for it to be allowed to fail. The political commitment expressed at the Group of 7 Summit in London to give "the first priority" to a successful and balanced conclusion to the Round was a welcome development. Developing countries, for their part, had spared no effort towards this goal and had made significant and landmark contributions. It was now for developed countries to show political will.

47. While the financial needs of developing countries remained substantial, there had been a deterioration of the external financial environment for development, with decreased availability, increased unpredictability and vulnerability to abrupt changes and higher costs of international finance. Despite continuous efforts by developing countries to increase private and public savings and reduce expenditures, and to attract foreign capital, resources available for investment had contracted. Depressed export receipts had compounded the situation. In such a situation, substantially augmented aid flows, both bilateral and multilateral, particularly on concessional terms, were needed to promote growth in developing countries. An imaginative package of incentives to encourage banks to lend and private sector enterprises to invest in developing countries would complement official development aid as well as their own developmental efforts. In this interdependent world, such measures would benefit developed countries through expanded exports resulting from larger purchasing power in developing countries.

48. Turning to the question of the constraints imposed by the so-called shortage of global savings on the need for augumentation of aid flows, he said that there was, on the one hand, clearly a case for increased savings, both public and private, through rationalization of consumption patterns in developed countries and reduction in Government deficits and military expenditure in all countries. On the other hand, the Trade and Development Report's recommendation regarding fuller utilization of world production potential, overcoming structural weaknesses in the financial system to generate more investment for fuller capacity utilization and removing constraints on institutional capacity to generate finance, provided a refreshing perspective on the generation of development finance and liquidity for developing countries. He commended the proposal to renew SDR allocations and to link them to development finance.

49. The external debt crisis of developing countries was one of the main factors responsible for import compression, decline in investment and retarded growth in developing countries and had led to a major drain of resources from them. Calling for deeper and wider concessionality in debt-relief measures, he expressed agreement with the recommendation that the international debt strategy must lead to more debt reduction in terms of percentage of debt reduction as well as coverage of indebted countries, and must encompass official, bilateral and multilateral as well as commercial debt. Low-income countries which had substantial debt burdens but which continued to service their debt and meet their international obligations at great cost to themselves should also benefit from debt reduction. This strategy should also be governed by objective economic criteria, not by political preferences or narrow financial concerns, as suggested by UNCTAD.

50. There was an urgent need to inject new vigour into international commodity cooperation for which UNCTAD had a unique mandate.

51. On sustainable development, UNCTAD must examine all those trade and development questions which arose from the environmental concerns. The goal of sustainable development had to be achieved through expanded and additional resource transfers to developing countries, and through assured access to environmentally sound technologies on preferential and favourable terms.

52. In order to meet the central objective set out in the UNCTAD VIII agenda, namely the promotion of "economic growth, accelerated development and technological capabilities of developing countries", interdependence needed to be managed in a way that would take a holistic view of all development issues within a universal and democratic forum like UNCTAD. As the apex organization for trade and development, UNCTAD ought to be fully engaged, enabled and equipped to carry out its appointed role and to help the emergence of effective partnership between developed and developing countries.

53. The spokesman for Group B (Italy) said that Group B countries were ready to help developing countries in promoting development through market-based, growth-oriented, sustainable approaches. Recently, new possibilities had opened up for improved dialogue with the developing countries. In this context, the concept of good management was central to the problematique of interdependence and development. Reflecting on the future role of UNCTAD, Group B had noted with great interest the ideas contained in the Ministerial Declaration of Caracas and shared many of the concerns expressed therein, particularly the goal of making UNCTAD a more relevant and fruitful forum for dialogue on trade and development issues. The secretariat should redeploy its resources to the most relevant areas. Greater emphasis should be placed on helping the LDCs overcome their difficulties, studying non-tariff measures, and analysing the anti-export bias of the structure of incentives in many developing countries. Other important tasks for UNCTAD were to assist developing countries in their liberalization and privatization programmes, to provide expertise and counsel on policies to attract foreign private investments, and to study ways to improve resource allocation.

54. Reviewing the developments in the world economy, he said that until mid-1991 growth in Japan and Germany had remained strong, while in the other OECD countries activity had slackened sharply. Since then, growth had slowed down in Japan and Germany, whereas in the majority of other OECD countries production had begun to pick up. The cyclical slowdown in the OECD countries, and the direct impact on trade of the Gulf crisis and the structural changes in Central and Eastern Europe, had substantially reduced the increase in the volume of world trade, hitting in particular the non-oil developing countries. On the other hand, the balance-of-payments disequilibria among the three main OECD countries had narrowed, mainly as a result of the

United States recession and the consequences of German unification. Furthermore, the difficulties of the Soviet economy had unfavourable consequences for all the other Central and Eastern European countries, compounding the difficulties of the shift to a system of world prices and convertible currency settlements.

55. In 1992, Group B expected OECD growth to accelerate, giving fresh impetus to developing countries' exports. Reforms in Central and Eastern Europe should also begin to bear fruit. A further strengthening of the open multilateral trading system was crucial for the continued growth of the world economy and would greatly enhance the progress of structural reform. Group B was encouraged by the widespread trade liberalization movement among developing countries, and among countries in transition from centrally-planned economies to market economies. While the recovery in total resource flows to developing countries had continued in 1990 and the growth of indebtedness had decelerated significantly, Sub-Saharan Africa and many middle-income countries, in particular in Latin America, continued to have chronic debt problems.

56. He felt that an increase in global savings should be achieved through more appropriate policies to ensure macroeconomic stability rather than by tinkering with international financial markets. It was true that the need for higher investment in all countries called for an increase in the savings rate in many developed countries, but the examples of Mexico and Chile also showed how determined adjustment and policy reform efforts in developing countries could "pay off" in greatly easing financial constraints. Finally, figures for official aid and the new highly concessional terms being finalized in the Paris Club bore witness to the continued efforts by bilateral agencies and multilateral institutions to achieve decisive alleviation of financial pressures afflicting poorer countries.

57. The representative of Australia said that the world economy was at a turning point in the economic cycle following a slowdown in growth in 1990. Economic interdependence was an issue that concerned everybody. It was a neutral factor transmitting benefits as well as economic shocks from the international market place to national economies. Though many developing countries were having to take difficult - sometimes painful - decisions, it was only by adopting sound economic policies that economic growth and development could be achieved.

58. The successful conclusion of the Uruguay Round was the most pressing and important challenge for Australia and developing countries alike. The real cause of the problems of small- and medium-sized trading countries was the failure of many of the major trading nations to adhere to the principles of the GATT, rather than imperfections in the Agreement itself. The GATT framework remained the only defence against aggressive trading practices by the major trading nations, and its dispute settlement processes the only avenue of recourse. He expressed concern at the continuing distortions in agricultural trade. An important example of cooperation between developed and developing countries was the contribution of the Cairns Group, which had given a voice to the developing countries in the negotiations for fairer agricultural trade.

59. With regard to the heavy debt levels in many developing countries, particularly in Saharan Africa countries, he endorsed measures providing long-term solutions, particularly trade liberalization under the Uruguay Round and responsible economic management by the indebted countries themselves. He also recognized the contribution which debt reduction could make to the restoration of credit-worthiness and a return to access to financial markets.

60. He stated that Australia accorded a high priority to ensuring that UNCTAD stood as a credible and relevant organization to deal with the challenges of the 1990s. In that context, he agreed with the view expressed in the Ministerial Declaration of the Latin American Group Ministerial Meeting in Caracas. Australia saw a need to revitalize UNCTAD's institutional and operational functioning, as well as a need to avoid confrontation in the form of a sterile and outdated North-South debate, and to establish more flexible negotiating forums which cut across the developed-developing country divide.

61. Referring to economic cooperation among developing countries, he considered that open market systems should be encouraged, and hoped that other developing countries could benefit from the lessons of the experience and success of countries in the Asia/Pacific region. Regarding the concept of ecologically sustainable development for promoting economic growth, he looked forward to a productive discussion at the current session of the Board which would help discussions at UNCTAD VIII. Finally, he cautioned that environmental concerns should not be misused to erect protectionist barriers.

62. The representative of Ecuador reflected on the changes that had taken place at the outset of the 1990s, drawing special attention to the growing awareness of the importance of human rights and the preservation of the environment. However, the war in the Gulf, the indebtedness problems of developing countries, the new outbreak of nationalism, the crisis in international trade, and monetary and financial instability were reasons for grave concern. At the same time, the changes in the Soviet Union and in Eastern Europe would allow new markets for developing countries' products to emerge.

63. He said that the current situation was favourable for the creation of a new international order, and liberalizing market access especially for tropical products was an essential element. He added that the destiny of mankind depended more on commodities than on advanced technology. Commodity prices had to be as remunerative as those of other products, if not more so.

64. While the depressed primary commodity prices required additional compensatory financing, debt relief should be extended to a wider range of countries, and the debt of the poorest countries should be written off entirely. Past experience had shown that the only solution to the problem of insurmountable debt was debt cancellation.

65. He stated that Ecuador was much preoccupied with the deterioration in its terms of trade and the difficulty of market access for some of its exports. In order to revitalize growth, the considerable domestic efforts of developing countries to correct their macroeconomic disequilibria had to be complemented by an improvement in the trading environment.

66. The representative of Bulgaria stated that, since the thirty-seventh session of the Board, Bulgaria had advanced substantially along the road of political and economic reform. The establishment of the legislative framework for a market economy was proceeding apace. Among the most important results were the new Constitution of the country, the Bill on Agricultural Lands, the Trade Bill, and the legislation on privatization, foreign investment, protection of competition and demonopolization. Bulgaria was widening its participation in international trade and financial institutions and continuing its active cooperation with the international economic forums of the United Nations system. These efforts were directed towards the reintegration of the Bulgarian economy into the European and world economy, which would help

the transition to a market economy, structural adjustment and finally the resumption of economic growth in Bulgaria. Moreover, this was expected to create new opportunities and openings for trade and economic cooperation for all countries.

67. Referring to the Trade and Development Report 1991, he said that Bulgaria's losses resulting from the Gulf crisis might be over $3 billion. To Bulgaria this figure represented more than 25 per cent of its external debt, and it had done severe damage to its financial capacities. Substantial damage was also being inflicted on Bulgaria's economy by the breakdown of trade with traditional partners, as was mentioned in the TDR.

68. Finally, he stressed that, contrary to what was stated in the Report, since tariff and non-tariff measures affecting East European countries had in the past been very much politically motivated, their removal now would mark a return to economic logic and provide material support for economic reforms in these countries. This did not in any case imply that the removal of those barriers led to the restriction of exports from developing countries.